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**FISCAL IMPACT STATEMENT**

**LS 6991**

**BILL NUMBER:** HB 1583

**NOTE PREPARED:** Jan 13, 2007

**BILL AMENDED:**

**SUBJECT:** Property tax circuit breaker.

**FIRST AUTHOR:** Rep. Kersey

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**     **GENERAL**  
                              **DEDICATED**  
                              **FEDERAL**

**IMPACT:** Local

**Summary of Legislation:** This bill provides for the calculation of the 2% circuit breaker property tax credit after subtracting certain levies. It also indicates that any reduction in collections due to the property tax credit does not relieve a taxing unit from the requirement of fully funding the payment of debt service or lease rentals.

**Effective Date:** January 1, 2008.

**Explanation of State Expenditures:**

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** NOTE: *The following analysis of the proposed property tax credit and of the current 2% property tax credit are subject to change as local assessors finalize trending/equalization adjustments and as actual normal assessed value (AV) and levy growth rates become known. The actual credits will differ from these estimates.*

Both the current law and proposed credits reduce local property tax revenue. The credits under this bill would result in a smaller revenue reduction than the credits under current law. This revenue increase is estimated at \$38 M in both CY 2008 and CY 2009, and \$119 M in CY 2010. There would be no change in Lake County in CY 2007.

*Under current law* counties must provide credits against the property tax liability of certain classes of property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The credit equals the amount of tax that exceeds the 2% threshold. Counties are not permitted to borrow money to fund the credit. The credits reduce revenues for local civil taxing units and school corporations in affected counties. The credit applies as follows:

1. The credit is mandatory in Lake County in 2007. It applies to all residential property in 2007 unless the Lake County Council adopts an ordinance by December 31, 2006, limiting the credit to only homesteads.
2. The credit is mandatory in all counties for taxes payable in 2008 and in 2009. The credit applies to all forms of residential property – homesteads, apartment complexes, and other residential rental property – in all counties.
3. Beginning with taxes payable in 2010, the credit applies to all real and personal property in all counties.

*Under this bill*, the calculation of the credit would be based on a smaller tax liability beginning in 2008. The tax liability used in the calculation would be reduced by the levies for the following funds:

- County family and children's fund;
- County medical assistance to wards fund;
- County children psychiatric residential treatment fund;
- County children with special health care needs fund;
- County hospital care for the indigent fund;
- State fair; and
- State forestry.

Under this proposal the total cost would be estimated at \$84 M in CY 2008 and CY 2009, and \$307 M in CY 2010. The credit would affect an estimated 967 taxing units in 70 counties when fully implemented in 2010. There are a total of about 2,400 taxing units in the 92 counties. The actual fiscal impact depends on local action.

By comparison, the cost of the current 2% credit is estimated at \$122 M in CY 2008 and CY 2009, and \$426 M in CY 2010. The current credit will affect an estimated 1,155 taxing units in 74 counties when fully implemented in 2010.

The bill would require that the revenue loss from the credit be applied proportionately to all funds in a taxing unit, including the funds that would be excluded from the credit calculation.

The bill would also require taxing units to fully fund the payment of debt service and lease rentals regardless of and revenue reduction due to the credits.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** All local civil taxing units and school corporations.

**Information Sources:** LSA parcel-level property tax database; Local Government Database.

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